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**Senate Budget Committee Chairman Judd Gregg (R-NH)**

**Senate Floor Speech on Pay-As-You-Go
Budget Enforcement Mechanism Adopted by House of Representatives**

**(Unofficial Transcript)
Tuesday, January 9, 2007**

**Mr. Gregg**: Mr. President, I just wanted to speak briefly, not specifically on this bill, although it's related to this bill and I will have an amendment on this bill -- hopefully I can offer that tomorrow -- but since there's a lull here in activities, I wanted to speak briefly on something the House has just recently done as part of its 100-day agenda.

It's passed language which is euphemistically referred to as Pay-Go. And I think it's important to understand what the implications of that language are because it really gives definition to the House leadership rather quickly in this whole process of where we're going in the area of fiscal responsibility as a country. Because what this bill essentially does, what this language essentially does is guarantee tax increases but it has virtually no impact on spending restraint.

It's been given this motherhood title "Pay-Go" when in fact it should be called and is more accurately described as "Tax-Go." The implications of this language are pretty simple. It says that when a tax cut lapses or comes to the ends of its term -- to the end of its term, that tax cut will be raised back to the original rates. So, for example, we today have a tax rate of 10% for low-income individuals. That tax cut was put in place back in the early 2000 period under the President's tax cut. That tax cut comes to a close from a statutory standpoint in the sense that the authorization for that level of rate terminates in 2010 and that rate will jump back up to the base rate, which I believe was 15% at the time. So there would be a 5% tax increase on low-income Americans. Who will pay taxes? That would be people over $40,000, for all intents and purposes, of income. That's a tax increase.

Now, you would think that that type of a mechanism would also be applied, if it's going to be a euphemism like Pay-Go, to the spending side of the aisle so that when a spending program, an entitlement program, for example, used up its authorized life -- let's take, for example, a farm program -- and it reaches its end of its term, as the farm program is about to do, that at that point, that program, which is a subsidized program, would have the costs of the original program go back in place. Or it would be cut back to having no subsidy at all. That's not the way it works. Under the proposal, entitlement programs are perceived to go on forever and to spend money forever at whatever the rate is even if their authorization ends but taxes are perceived to end, tax reductions are perceived to end and taxes are perceived to go up.

So you basically treat the two sides of the ledger entirely differently. One side of the ledger, taxes go up under this Tax-Go proposal. If there's no change and on the other side of the ledger, if there is no change, the entitlement spending goes on with that designated program forever without it falling back and being eliminated. There's no review of it. So the practical implication of this language is that the only thing that it affects when you put it in place, this so-called Pay-Go, which is really Tax-Go, is the tax side of the ledger. That's the only thing that can be impacted by this. Because the entitlement programs under the scoring mechanisms of our government don't lapse, don't end, the spending is perceived to go on, so Pay-Go won't apply to it. You can't review the program. It's only on the tax side that it applies. So the effect of that is that this is a mechanism to force a tax increase. Because what this basically says is that without 60 votes, you cannot continue the lower tax rate but on the entitlement side, you can continue to spend the money not subject to a 60-vote threshold. Two different approaches to the two sides of the ledger here in the Congress.

And so by doing -- taking this action in the House and passing this language, they have essentially said it is their goal to dramatically increase taxes, to use the mechanism of alleged Pay-Go, or Tax-Go, to drive major tax increases on the American public. Well, if you're on the Democratic side of the aisle in the House -- maybe even on our side of the aisle -- or on the Democratic side of the aisle here, that may make sense, you may want to raise taxes. It is the tradition, of course, of the other party to like to raise taxes, I guess. That's how they got the title "tax and spend" affixed to their nomenclature. But this is a rather brash way to do it, to start right off, the first major enforcement mechanism for budget supposedly restraint is a mechanism that doesn't reduce spending at all, doesn't restrain spending at all. All it does is force us to raise taxes, or at least be subject to a 60-vote point of order if we want to maintain taxes at their present level.

Now, some might say, well, we need to raise taxes. The tax burden in America isn't large enough on earning Americans, especially high-income Americans. I fundamentally disagree with that. Why? Because when you look at the present law and what is generating in revenues, we are seeing a dramatic increase in revenues in this country. Revenues have jumped in the last three years more than they have jumped at any period in our history. And that is because we have in place a tax system which has created an incentive for people to go out and invest, to undertake economic activity which has, in turn, generated revenues to the federal government.

Now, historically, the federal government revenues have been about 18.2% of Gross National Product. That's how much the federal government has historically taken out of our economy, and spent for the purposes of governance. That's the average. We are now getting back in tax receipts, because of these large increases over the last three years, close to 18.4 1/2 percent of Gross National Product. So we have actually gone over what are historic levels of revenue in the federal government. That's good news. It's been done in the right way, by the way. We've generated this extra revenue by creating an atmosphere out there where people are willing to invest in taxable activity.

We've seen over the years – and in fact President Kennedy was the first one it appreciate this, followed by President Reagan and then President Bush – that when you get tax levels too high, the American people are creative. We have we're a market economy. When you raise tax levels too high, people say, Hey, I'm not going to pay that tax rate. I'm going to invest something that avoids taxes. Something that's highly depreciated, something that expenses items, something that allows me to put more money in municipal bonds -- allows me to put my money where I don't have to pay that exorbitant tax rate.

What happened under the Kennedy cut and the Reagan cut and the Bush cut was that when you get taxes at the right level -- when you say to the American entrepreneur and the American earner, we're going to charge you what is a reasonable tax rate on your investment, then the American people go out and invest in actual activity. And that taxable activity generates jobs, jobs create growth, it also is a much more efficient way to have money us used. You don't have money being inefficiently invested for the purpose of avoiding taxes. Money is instead invested for the purpose of generating activity that is productive. And as a result the entire economy rises, as has happened in the last few years, and he generate significant revenues to the federal treasury, as has happened in the last few years and is projected, by the way, to continue to happen both by CBO and OMB.

So some will say, well, sure, but that doesn't point out the fact that the high-income people in America got a huge tax cut under this tax proposal. Well, remember, we are generating more revenue from this tax cut. More revenue than we got before. We had a down period and there can be a lot debate about that. My view is it came out of the bubble of the late 1990's and the attack of 9/11 and the initial impact of the tax cut. But that has all been reversed to a point where we now have an economic situation where we are generating more revenues, the federal government, than we have as an historic norm.

So we're getting more revenues from this tax system, and interestingly enough the tax system is more progressive. It is the most progressive it has been in history. The top 20% of American income people -- people of American income are paying 85.2% of the federal tax burden. The top 20% pay 85.2% of the American tax burden, income tax burden. The bottom -- which compares to the Clinton years when about the top 20% were paying 84% of the tax burden. So actually the top 20% are absorbing more of the tax burden of America, generating more revenues to America, to the government, and not only that but the bottom 40% of American earners -- income individuals -- are getting more back than they did under the Clinton years. Almost twice as much. If you earn less than $40,000 in America, you're receiving more back than you did under the Clinton years because of the effect of the earned-income tax credit. In fact, almost, as I said, twice as much.

So we have a law now, a tax law that is doing two extraordinary things. It's generating huge revenues to the federal treasury, because of the economic activity it's encouraging. Creating jobs, creating investment, creating taxable events, and it's created a more progressive tax system. So that's the good news. So why don't we want to raise taxes? Why don't we want to go back and raise taxes on that situation? I don't think we should. But if you follow the Pay-Go proposal that has been brought forward by the House, that is the only option that occurs, as these tax policies start to lapse in the year 2010.

Now, I would probably be willing to fight that fight -- in fact I am willing to fight that fight if -- if -- we treated the spending side of the ledger the same way under Pay-Go or under Tax-Go as I call it. But we don't, because as I mentioned earlier, because of the way the baseline works around here, the spending side of the ledger does not have to be looked at under the Pay-Go rules. You can continue to spend on those entitlement programs whatever is in their traditional spending patterns plus increases as a result of more people using them. Granted, you can't create new entitlement programs. Those would be subject to Pay-Go. And you can't dramatically expand the programs -- for example, Part "D" premium would have been subject to Pay-Go-- was subject to Pay-Go but that's only a small portion of the spending issue.

The real essence of the spending issue is the underlying entitlement, as is of course the essence of the tax side the underlying rate. And so what you've essentially done is create a mechanism which, because of the way we score spending versus taxes, causes taxes to be subject to a 60-vote point of order but does not cause spending to be subject to the same discipline. So the practical implications of it are that it will basically be used primarily as a force for forcing tax increases on the American people -- almost automatically, by the way because in 2010 these taxes that are in place, these tax rate changes, lapse and under the rules they'll subject to a 60-vote point of order and getting taxes around here is pretty difficult.

So this is the problem with Pay-Go as it is presently structured. Interestingly enough, the House has also done this in a way that doesn't even go to the traditional Pay-Go rules which would involve sequestering, as I understand it. They have done this outside the statutory process. They've done it as a rule, and, therefore, the true enforcement mechanism against a new entitlement to the extent Pay-Go would apply, would be sequester.

What is sequester? It essentially says that either you offset the new spending with spending cuts somewhere or else you have an automatic event which does it for you, across the board. Well, that's the right way do this. That's the right way do this. You should have sequester. And so the failure to get sequester as part of the exercise just once again shows that really there isn't a seriousness of purpose in this rule as it was passed by the House relative to spending restraint. There's only a seriousness of purpose relative to making sure that taxes go up. And you really can't defend that position unless you're willing to take the position that, well, what we are interested in here is raising taxes because otherwise to defend that position, you'd have to say, well yeah, but we didn't want to apply it to entitlement programs that already exist. And, yes, even if there is a new entitlement program, we really didn't want to apply to that new entitlement program with any enforcement mechanisms that might actually require us to cut spending. We'll just sort of finesse that one. The only thing we really wanted this to be required to attach is whether or not taxes go up in 2010. So I do think it is ironic if not a bit disingenuous to have one of the first major items of principle upon which the House Democratic leadership is going to stand be that they want a rule that puts in place the requirement that we raise taxes.

And it, I think, in my opinion shows that there maybe is a superficial purpose here relative to actually defending and controlling spending. Now, I have not been one to shrink from pointing out that my side has not done a great job on spending restraint. I've been rather definitive about that. But I do think that it's inappropriate to start this Congress with the statement that we're going to be fiscally disciplined and then claim that the fiscal discipline is going to be hung on one rule. And that appears to be the only thing that they've done on the issue of fiscal discipline -- on one rule which has as a practical matter no practical effect on spend restraint. None.

There are ways to correct this. There are ways to make this rule a statute. In fact the Senator from North Dakota has proposed that. There are ways to make this rule apply appropriately to restraining entitlements as well as restraining the issue of tax policy, if that's what you want to do. And I might be inclined to support such a rule if it were balanced, if it said, Okay, we're going to be as aggressive on the issue of spending restraint and entitlements as we're going to be aggressive on the issue of defining how taxes are applied here. But that's not the case. That’s not the case at all. This is a rule that comes at us that treats these two accounts differently and inappropriately in the sense that it treats one as apples, one as oranges and then says we're only going to deal with the apples. Not good policy.

For some reason, unfortunately, it has managed to take on a life of its own relative to this nomenclature -- Pay-Go. So that there is almost a sacrosanct-ness to -- we had an idea around here called the lockbox for years which took on that same kind of sacrosanct concept even though it also was a bit illusory as to what it accomplished versus what it claimed to be. This proposal has the same problem. It is illusory as to what it accomplished as to what it claims to accomplish. It does accomplish the raising of taxes. It does not accomplish the disciplining of the entitlement side of the spending accounts around here.

Now, I understand that this matter is probably not going to be raised on our side until we get to the budget process. That may or may not be the right place to raise this issue because if you're going to do it statutorily, which is actually the way you should do it, the budget process can't accomplish that. But when we do approach this I would hope that we could amend this in a manner that would allow it to us to have this played fairly so we can have apples on both sides of the agenda, or oranges on both sided of the ledger so an entitlement program when it reached its authorizing term would have to be subject to the issue. Not new entitlements but the actual underlying entitlements. Under the tax program when it hit its authorized life, it would have to be subject to the same. That would be the right way to do it.

But it's not the way the House did it and it wasn't done that way intentionally. You know, I'd like to see that it was just inadvertent that they left out entitlements, but it is not. They left it out because really the driving thrust here -- and I think the reason that it has taken on such a life of its own with the nomenclature -- the driving thrust is to use this as a mechanism to basically attack the tax cuts of the early 2000 period. It is not an attempt to restrain the rate of growth of this government on the entitlement accounts.

Why do we need to restrain the rate of growth on the entitlement accounts? Well, it is very simple. The numbers are stark. They're there. Everybody agrees to them. By the year 2025, three accounts in this government -- Social Security, Medicare, and Medicaid -- will absorb 20% of the Gross National Product, 20%. By the year 2040, they'll be absorbing almost 30% of the Gross National Product. Well, if you'll recall what I said earlier – which I can understand if you don't because I've been going on for a long time -- the revenues of the federal government are only 18.4% of the Gross National Product. So by 2025, because of the retirement of the baby-boom generation, we will be unable to afford this government unless we are going to radically increase the tax burden on working Americans. It's pretty obvious to me you can't tax your way out of this problem. You cannot put a burden on the next generation of 22%, 23%, 24% of Gross National Product , because that means you deny them the ability to live a lifestyle like we're living. You deny them the extra dollars they would need to send their children to college, to buy their homes, to be able to do what they want to do with their life because all of that money is going to go to taxes to pay for all of this entitlement that's on the books, which we have to pay for as a result of this retired generation.

And you can't tax your way out of this issue. Even if you agree with the static models that say you raise taxes, you get more revenues. I don't happen to agree with that. I believe we've proven under the Kennedy cuts, the Reagan cuts, the bush cuts. Even if you were to accept that, you can't tax your way out of this problem. You've got to address the spending side of the ledger, and that's why you have to have a real Pay-Go rule. Not a Tax-Go rule, but a Pay-Go rule that actually does address the spending side of the ledger as aggressively as it addresses the tax side of the ledger, or you shouldn't have the rule at all. Because you're basically just prejudicing us to move down the road of tax increases, and you're not addressing the fundamental problem, fundamental disease, for lack – disease is the wrong term; but the fundamental issue that is driving the problem that our children are going to confront, which is they're going to get a country they can't afford. Our generation is going to give them a country they can't afford, and that's not right for one generation to do to another generation.

There are ways to address this. There are substantive ways to address this. The Senator from North Dakota gets to be the leader, and I welcome him to that role, in trying to come to some resolution on this whole issue of how you get to this spending balance between spending and taxes in the face of this huge demographic and this huge retirement that's going to occur and the pressure it's going to put on our society. But we're getting off on the wrong foot here as a Congress if we simply say we're just going to do it on the tax side of the ledger. And that's essentially what this proposal that came out of the House does. There are better ways to do it. There are better ways to structure the proposal. The issue has to be addressed. We as a society have to address it, and you simply can't do it on the tax side of the ledger.

Mr. President, I yield the floor.